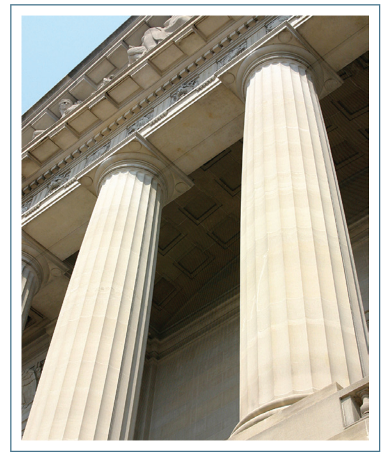
The Benefits of BOLI to Financial Institutions



The Newport Group provides financial institutions with an end-to-end suite of services for bank-owned life insurance (BOLI). Our BOLI offering begins with a comprehensive consulting process that looks specifically at the needs of the financial institution, as well as the current economic and legislative environment, and ends with best-in-class BOLI administrative services that include a single point of contact for the bank, and accounting, tax, and compliance reporting, provided online through our state of the art proprietary administration platform.

What is BOLI?

The term BOLI is used for any life insurance policy that is owned by the Bank. BOLI allows banks to convert taxable investment yield into non-taxable income.

BOLI is an asset class held by the bank which provides an effective vehicle for informally financing both broad-based employer sponsored benefits programs, as well as the cost of employee benefits, matching the long-term nature of the asset with the continual increasing costs. It often recovers the current and future costs of:

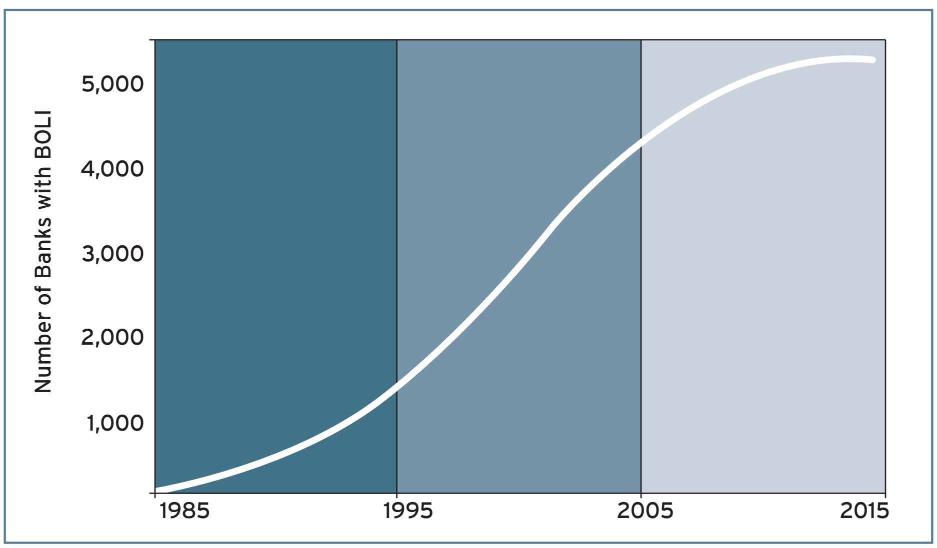
- insuring for the potential economic loss arising from the premature death of a key employee
- offsetting the cost of funding employer-sponsored health and welfare ERISA benefit plans
- recovering the cost of post-retirement employee benefit plans
- hedging the liability of executive deferred compensation plans

The policy is typically an institutionally priced, minimum death benefit structure to highest cost-effective return. This allows for an excellent diversification to taxable assets on the balance sheet.

The Growth of BOLI

Since its inception in the 1980s, BOLI has become an accepted and widely used financial vehicle through which banks and other financial institutions invest a relatively small, but significant portion of their assets.

BOLI Prevalence in the Marketplace

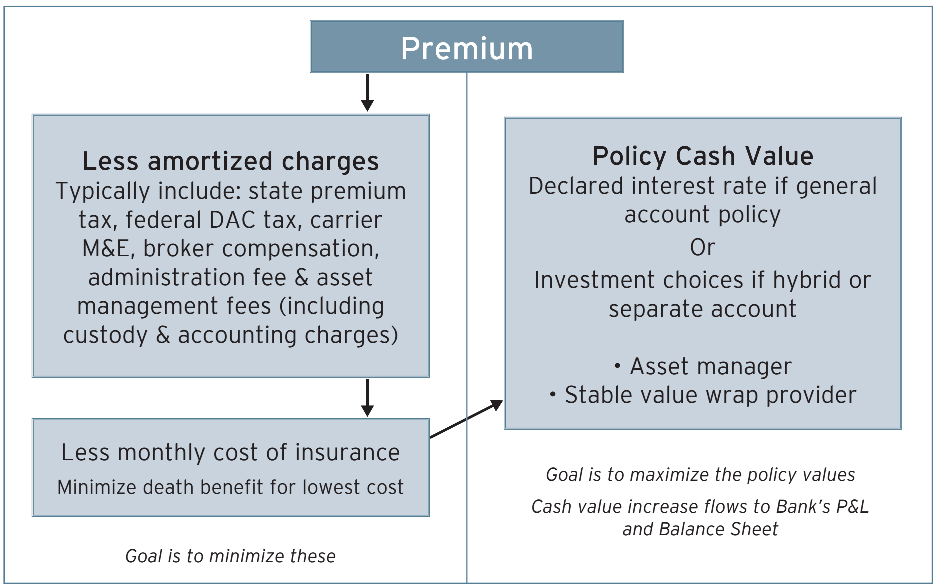


How does BOLI work?

BOLI allows the bank to record favorable after-tax yields through cash value accumulation and insurance proceeds. Increases in cash value are generally tax deferred and proceeds are generally income tax free.

As the intent is to retain the insurance for the life of the insured key person, the bank retains the tax advantaged asset on the balance sheet for the duration of the policy. This provides the excellent offset for benefit liability costs, matching the long term nature of the obligations.

Life insurance is one of the few remaining, long-standing, and statutorily regulated risk products with investment characteristics for the tax deferral of income and capital gains:



Navigating BOLI Regulations

The oversight for BOLI comes from the federal regulators, the Internal Revenue Service, and federal and state laws.

Interagency Statement On BOLI

On December 7, 2004, the four federal banking agencies (OCC, OTS, FDIC, and Federal Reserve) released an Interagency Statement on the Purchase and Risk Management of Life Insurance. This interagency statement (OCC Bulletin 2004-56, FDIC FIL-127-2004, OTS TB 84, FRB SR 04-19) focuses on supervisory expectations and provides general guidance for the purchase and risk management of BOLI.

The fundamental points of the Interagency Statement are that BOLI may be purchased in connection with employee compensation and benefit plans, and must be:

- incidental to the business of banking
- satisfy the insured employees' state statute on insurable interest

- subject to a pre-purchase risk assessment
- approved by a board or a designated board committee
- monitored through ongoing risk management

Safe and sound banking practices require that banks complete a thorough analysis of the contemplated BOLI purchase prior to purchase, as well as ongoing due diligence to ensure continued compliance throughout the life of the BOLI program. A prudent risk management process includes:

- effective senior management and board oversight
- comprehensive policies and procedures, including appropriate limits
- a thorough pre-purchase analysis of BOLI products
- an effective ongoing system of risk assessment, management, monitoring, and internal control processes, including appropriate internal audit and compliance frameworks

Newport assists our clients with each step of this compliance process by providing:

- a thorough pre-purchase analysis of every BOLI program purchased through Newport
- a best-in-class pre-purchase analysis manual that documents each step of the process
- ongoing regulatory and legislative compliance reporting

Summary/Conclusions

Newport provides sophisticated consulting services for BOLI programs. Centered on our comprehensive BOLI diagnostic, our consulting process evaluates the key elements necessary to properly structure, implement and maintain a successful BOLI program. The BOLI diagnostic consists of nine separate assessments: BOLI Portfolio Analysis, Separate Account Investment Analysis, Carrier Credit Analysis, Peer Group Analysis, Funding Analysis, Product Analysis, Carrier Analysis, 1035 Exchange Analysis, and Administrative Services Review.

A properly structured BOLI program can be financially efficient, fit within the scope of safe and sound banking practices, and be superior to available on-balance sheet alternatives.